Macroeconomic Policy with Financial Market Stability: The Case of Japan's Early 19th Century

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Abstract

Through the Tokugawa period (1603-1867), the Shogunate often intervened in the Osaka market to keep the rice price stable. Since the Shogunate did not have enough funds to finance the market intervention, he should borrow money from the financial intermediaries to finance the market intervention (ex. Buying operation).This paper explores the implications on the market interventions as a tool of the macroeconomic policy in Japan's early 19th century. Some anecdotal evidences support the view that, in the wake of the policy failure in 1761, the Shogunate recognized the importance of the financial market stability as well as the rice price stability in implementing the market interventions. By using high-frequency event study approach, we find that, while the 'actual' interventions before October 1806 did not help the rice market to boost up, the Shogunate was successful to improve the rice exchange market by the 'oral' interventions after October 1806. Finally, the Shogunate could achieve the two goals: 'macroeconomic stability' and 'financial market stability' in the early 19th century.

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